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**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 6/1/03 AND ENDING 6/30/04  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: BLACKWELL DONALDSON & COMPANY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

610 SW Alder Street Suite 810

(No. and Street)

Portland

(City)

Oregon

(State)

97205-3670

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Joseph M. Blackwell

503/223-3633

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

MORRISON & LIEBSWAGER, PC

(Name - if individual, state last, first, middle name)

15405 SW 116th Avenue, Suite 105 King City, Oregon 97224

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions.

**FOR OFFICIAL USE ONLY**

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

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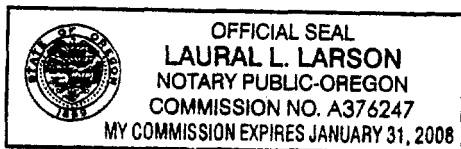
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FINANCIAL

## OATH OR AFFIRMATION

I, Joseph M. Blackwell, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of BLACKWELL DONALDSON & COMPANY, as of May 31, 2004, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



[Signature]  
Signature

President  
Title

[Signature]  
Notary Public

This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☒ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☒ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☒ (o) Report of independent certified public accountants on internal control structure.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**TO BE COMPLETED WITH THE ANNUAL AUDIT REPORT ONLY:**

**INDEPENDENT PUBLIC ACCOUNTANT** whose opinion is contained in this Report

Name (If individual, state last, first, middle name)

MORRISON & LIEBSWAGER, PC

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|                |                                  |                   |              |                 |
|----------------|----------------------------------|-------------------|--------------|-----------------|
| <b>ADDRESS</b> | <b>Number and Street</b>         | <b>City</b>       | <b>State</b> | <b>Zip Code</b> |
|                | 15405 SW 116th Avenue, Suite 105 | King City, Oregon | 97224        |                 |

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Check One

( X ) Certified Public Accountant

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( ) Public Accountant

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( ) Accountant not resident in United States or  
any of its possessions

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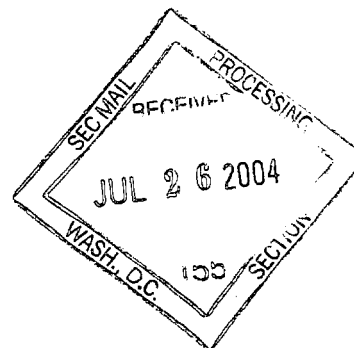
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BLACKWELL DONALDSON & COMPANY

Annual Audited Report

For The Years Ended May 31, 2004 and 2003



MORRISON & LIEBSWAGER, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS  
15405 S.W. 116TH AVENUE  
SUITE 105  
KING CITY, OREGON 97224  
503/624-0940

## CONTENTS

|  | PAGE  |
|--|-------|
| ANNUAL AUDITED REPORT  |       |
| FORM X-17A-5, PART 111-----  | 1-3   |
| INDEPENDENT AUDITOR'S REPORT-----  | 4     |
| FINANCIAL STATEMENTS   |       |
| STATEMENTS OF FINANCIAL CONDITION-----   | 5     |
| STATEMENTS OF INCOME-----  | 6     |
| STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY-----                             | 7     |
| STATEMENTS OF CHANGES IN LIABILITIES SUBORDINATED TO<br>GENERAL CREDITORS----- | 8     |
| STATEMENTS OF CASH FLOWS-----  | 9     |
| NOTES TO FINANCIAL STATEMENTS-----   | 10-12 |
| SUPPLEMENTAL INFORMATION   |       |
| REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTAL<br>INFORMATION-----             | 14    |
| SCHEDULE 1 - COMPUTATION OF NET CAPITAL-----                                   | 15    |
| SCHEDULE 2 - RECONCILIATION OF COMPUTATION OF NET<br>CAPITAL-----              | 16    |
| REPORT OF INDEPENDENT AUDITORS ON INTERNAL<br>ACCOUNTING CONTROL-----          | 17-18 |

**Morrison & Liebswager, P.C.**  
**Certified Public Accountants**

15405 SW 116th Avenue, Suite 105  
King City, OR 97224

Bruce J. Morrison

Duane G. Liebswager

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Blackwell Donaldson & Company

We have audited the accompanying statements of financial condition of Blackwell Donaldson & Company as of May 31, 2004 and 2003, and the related statements of income, changes in stockholders' equity, changes in liabilities subordinated to claims of general creditors, and cash flows for the years then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion of these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Blackwell Donaldson & Company as of May 31, 2004 and 2003, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with SEC Rule 17a-5, we have also issued a report dated July 15, 2004 on required supplemental information and a report dated July 15, 2004 on our consideration of Blackwell Donaldson & Company's internal control structure.

*Morrison & Liebswager, P.C.*

Morrison & Liebswager, P.C.  
Certified Public Accountants

July 15, 2004

BLACKWELL DONALDSON & COMPANY  
 STATEMENTS OF FINANCIAL CONDITION  
 For the Years Ended May 31, 2004 and 2003

|  | <u>2004</u>      | <u>2003</u>      |
|--|------------------|------------------|
| <b>ASSETS</b>  |                  |                  |
| CURRENT ASSETS   |                  |                  |
| Cash   | \$ 53,768        | \$ 10,971        |
| Deposit with clearing organization   | 28,301           | 28,456           |
| Receivables from brokers and dealers   | 41,389           | 43,946           |
| OTHER ASSETS   |                  |                  |
| Secured demand note receivable   | <u>30,000</u>    | <u>30,000</u>    |
| Total Assets   | <u>\$153,458</u> | <u>\$113,373</u> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                  |                  |
| CURRENT LIABILITIES  |                  |                  |
| Accounts payable and accrued expenses  | <u>\$ 46,155</u> | <u>\$ 20,491</u> |
| Liabilities subordinated to claims of<br>general creditors                                       | <u>30,000</u>    | <u>30,000</u>    |
| STOCKHOLDERS' EQUITY   |                  |                  |
| Common stock; no par value,<br>10,000 shares authorized, 1100 issued<br>and outstanding (Note 9) | 31,000           | 31,000           |
| Additional paid in capital   | 145,916          | 145,916          |
| Retained earnings  | ( 99,613)        | (114,034)        |
| Total stockholders' equity   | <u>77,303</u>    | <u>62,882</u>    |
| Total Liabilities and<br>Stockholders' Equity  | <u>\$153,458</u> | <u>\$113,373</u> |

See accompanying notes and accountants' audit report.

BLACKWELL DONALDSON & COMPANY  
 STATEMENTS OF INCOME  
 For the Years Ended May 31, 2004 and 2003

|   | <u>2004</u>      | <u>2003</u>      |
|---|------------------|------------------|
| REVENUES  |                  |                  |
| Commissions                                       | \$ 804,615       | \$ 390,239       |
| Revenue from sale of investment<br>company shares | 33,433           | 23,156           |
| Other   | 5,158            | 35,800           |
| Interest and dividends                            | <u>12</u>        | <u>23</u>        |
| Total revenue                                     | <u>843,218</u>   | <u>449,218</u>   |
| EXPENSES  |                  |                  |
| Commissions expense                               | 449,752          | 129,351          |
| Salary and benefits                               | 120,508          | 108,578          |
| Rent and parking                                  | 93,432           | 86,732           |
| Quotation service                                 | 1,838            | 33,589           |
| Regulatory fees                                   | 19,342           | 19,828           |
| Taxes and licenses                                | 3,565            | 102              |
| Office supplies, printing and postage             | 74,946           | 34,101           |
| Telephone   | 15,204           | 14,716           |
| Professional services                             | 45,006           | 6,962            |
| Insurance   | <u>5,194</u>     | <u>4,034</u>     |
| Total expenses                                    | <u>828,787</u>   | <u>437,993</u>   |
| Income before income taxes                        | 14,431           | 11,225           |
| Income taxes                                      | ( <u>10</u> )    | <u>0</u>         |
| Net income  | <u>\$ 14,421</u> | <u>\$ 11,225</u> |

See accompanying notes and accountants' audit report.



BLACKWELL DONALDSON & COMPANY  
 STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
 For the Years Ended May 31, 2004 and 2003

|                         | <u>COMMON<br/>STOCK</u> | <u>ADDITIONAL<br/>PAID IN<br/>CAPITAL</u> | <u>RETAINED<br/>EARNINGS</u> |
|-------------------------|-------------------------|---|------------------------------|
| Balance at May 31, 2002 | \$31,000                | \$145,916                                 | (\$125,259)                  |
| Net income              | <u>          </u>       | <u>          </u>                         | <u>11,225</u>                |
| Balance at May 31, 2003 | 31,000                  | 145,916                                   | 114,034                      |
| Net income              | <u>          </u>       | <u>          </u>                         | <u>14,421</u>                |
| Balance at May 31, 2004 | <u>\$31,000</u>         | <u>\$145,916</u>                          | <u>(\$99,613)</u>            |

See accompanying notes and accountants' audit report.

BLACKWELL DONALDSON & COMPANY  
STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED TO GENERAL  
CREDITORS  
For the Years Ended May 31, 2004 and 2003

|                         |                 |
|-------------------------|-----------------|
| Balance at May 31, 2002 | \$30,000        |
| Net change during year  | <u>0</u>        |
| Balance at May 31, 2003 | 30,000          |
| Net change during year  | <u>0</u>        |
| Balance at May 31, 2004 | <u>\$30,000</u> |

See accompanying notes.

BLACKWELL DONALDSON & COMPANY  
 STATEMENTS OF CASH FLOWS  
 For the Years Ended May 31, 2004 and 2003

|   | <u>2004</u>      | <u>2003</u>        |
|---|------------------|--------------------|
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                           |                  |                    |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                  |                    |
| Revenues  | \$ 845,763       | \$ 424,708         |
| Cash paid to suppliers and employees  | ( 802,493)       | ( 428,642)         |
| Interest income   | 12               | 23                 |
| Income taxes paid   | ( <u>485</u> )   | <u>0</u>           |
| Net cash provided by (used in) operating activities                               | 42,797           | ( 3,911)           |
| Net increase in cash and cash equivalents   | 42,797           | ( 3,911)           |
| Cash and cash equivalents at beginning of year                                    | <u>10,971</u>    | <u>14,882</u>      |
| Cash and cash equivalents at end of year  | \$ <u>53,768</u> | \$ <u>10,971</u>   |
| <b>RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b> |                  |                    |
| Net income  | \$ 14,421        | \$ 11,225          |
| Adjustments to reconcile net income to net cash provided by operating activities: |                  |                    |
| (Increase) Decrease in deposits with clearing organization                        | 155              | 18                 |
| (Increase) Decrease in Receivables  | 2,557            | ( 24,510)          |
| Increase (Decrease) in accrued payables   | <u>25,664</u>    | <u>9,356</u>       |
| Total adjustments   | <u>28,376</u>    | ( <u>15,136</u> )  |
| Net cash provided by operating activities   | \$ <u>42,797</u> | (\$ <u>3,911</u> ) |

**DISCLOSURE OF ACCOUNTING POLICY:**

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash in banks and cash in Broker Clearing Accounts.

See accompanying notes and accountants' audit report.

**BLACKWELL DONALDSON & COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
**May 31, 2004**

**NOTE 1 - THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES**

The Company is an Oregon corporation and a registered broker-dealer in securities under the Securities and Exchange Act of 1934, as amended. The Company renders brokerage services in securities principally on an agency basis to its customers who are fully introduced to another registered broker-dealer with its home office in Portland, Oregon. The Company is exempt from the reserve requirements under SEC Rule 15c3-3(k)(2)(ii), since it does not handle or carry customer securities and cash (note 2).

Receivables from brokers or dealers consist of commissions receivable outstanding less than 30 days and are considered fully collectible.

The Company is on the cash basis of accounting for federal and state income tax purposes and is on the accrual basis of accounting for financial reporting purposes.

Securities transactions and related commission revenue and expense are recorded on the settlement date basis.

Commission revenue in these financial statements are recorded net of clearing charges and costs.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - CASH**

The Company has a special cash account wherein customer checks written to the Company for mutual fund purchases are deposited. On the day of deposit, the Company writes a check to the respective mutual fund, net of any commissions earned on the transaction. At May 31, 2002, the balance of this account was \$1,200., consisting of a minimum deposit maintained by the Company.

**BLACKWELL DONALDSON & COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
**May 31, 2004**

**NOTE 3 - RELATED PARTY TRANSACTIONS**

In the normal course of business, the Company has transactions with an affiliate owned by an officer and director. The company rents its Portland office space from an affiliate on a month-to-month basis. Total rent expense for the year ended May 31, 2004 and 2003, was \$62,277 and \$54,825 respectively.

**NOTE 4 - INCOME TAXES**

The Company has federal and state net operating loss carryforwards of approximately \$77,567 to offset future taxable income. The tax benefits of these net operating losses will expire between 2009 and 2015. The excess of deferred tax benefits over deferred tax liabilities has not been entered into the financial statements.

**NOTE 5 - NET CAPITAL REQUIREMENT**

The Company is subject to the net capital rule (Rule 15c3-1) of the Securities and Exchange commission. This rule prohibits the Company from engaging in any securities transaction at a time when its "aggregate indebtedness" exceeds 15 times its "net capital" as those terms are defined by the rule. At May 31, 2004, the Company's net capital and required net capital were \$107,303 and \$50,000 respectively, and its ratio of aggregate indebtedness to net capital was .431 to 1.

**NOTE 6 - COMMITMENTS AND CONTINGENCIES**

Included in the Company's clearing agreement with its clearing broker-dealer, is an indemnification clause. This clause relates to instances where the Company's customers fail to settle security transactions. In the event this occurs, the Company has indemnified the clearing broker-dealer to the extent of the net loss on the unsettled trade. At May 31, 2004, management of the Company had not been notified by the clearing broker-dealer nor were they otherwise aware of any potential losses relating to this indemnification.

The Company is a defendant in a lawsuit filed by one of its customers alleging various claims related to a purchase of common stock. The suit asks for actual and punitive damages totaling \$720,000. The Company is a defendant in another lawsuit filed by one of its customers alleging various claims relating to "fraudulent solicitation and sale". The suit asks for recovery of economic damages in the amount of 10.5 million dollars. The Company believes both suits are completely without merit and intends to vigorously defend its position.

**BLACKWELL DONALDSON & COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
**MAY 31, 2004**

**NOTE 7 - LIABILITIES SUBORDINATED TO CLAIMS OF GENERAL CREDITORS**

The borrowings under subordination agreements at May 31, 2004, are as listed below:

Liabilities pursuant to a secured demand note  
collateral agreement, non-interest bearing,  
due in full March 31, 2006.....\$30,000

Total \$30,000

A stockholder of the Company has pledged personal stock for a pre-approved subordinated loan agreement which qualifies as equity for inclusion in the computation of net capital. To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, it may not be repaid.

**NOTE 8 - ACCRUED VACATION PAY**

The Company has not accrued compensated absences because that amount cannot be reasonably estimated and is not material to these financial statements.

**NOTE 9 - COMMON STOCK**

During the fiscal year ending May 31, 1997, the Company created two classes of common stock. Class "A" stock are the voting shares while Class "B" stock has all rights as Class "A", but is nonvoting shares.

As of May 31, 2004 the allocations of stock classes are as follows:

Class "A": 5,000 authorized; No par value; 1,000 shares issued and outstanding

Class "B": 5,000 authorized; No par value; 100 shares issued and outstanding

**NOTE 10 - CASH CONCENTRATION**

The Company maintains cash balances at a financial institution located in Portland, Oregon. Accounts are insured by the Federal Deposit Insurance Corporation up to \$100,000. At various times during the fiscal year, the balance exceeded the \$100,000 limit. At May 31, 2004, the Company's uninsured cash balance was \$-0-.

SUPPLEMENTARY INFORMATION  
PURSUANT TO RULE 17A-5 OF THE  
SECURITIES EXCHANGE ACT OF 1934

**Morrison & Liebswager, P.C.**  
**Certified Public Accountants**

15405 SW 116th Avenue, Suite 105  
King City, OR 97224

Bruce J. Morrison

Duane G. Liebswager

Independent Auditor's Report on Supplementary Information  
Required by Rule 17a-5 of the Securities and Exchange Commission

Board of Directors  
Blackwell Donaldson & Company

We have audited the accompanying financial statements of Blackwell Donaldson & Company as of and for the year ended May 31, 2004, and have issued our report thereon dated July 15, 2004. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I and II is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Commission Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Morrison & Liebswager, P.C.*  
Morrison & Liebswager, P.C.  
Certified Public Accountants

July 15, 2004



**BLACKWELL DONALDSON & COMPANY**  
**SCHEDULE 1 - COMPUTATION OF NET CAPITAL**  
**For Years Ended May 31, 2004 and 2003**

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT - PART IIA  
 FORM X-17A-5 THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION

|   | <u>2004</u>       | <u>2003</u>       |
|---|-------------------|-------------------|
| Stockholders' equity from statement of financial condition    | \$ 77,303         | \$ 62,882         |
| Additions:  |                   |                   |
| Subordinations allowable for net capital secured demand notes | <u>30,000</u>     | <u>30,000</u>     |
| Total capital and allowable subordinated liabilities          | 107,303           | 92,882            |
| Non-allowable assets  |                   |                   |
| Other assets  | <u>0</u>          | <u>0</u>          |
| Net Capital before haircuts                                   | 107,303           | 92,882            |
| Haircuts  |                   |                   |
| Money markets   | <u>0</u>          | <u>0</u>          |
| Net Capital   | <u>\$107,303</u>  | <u>\$ 92,882</u>  |
| Computation of net capital requirement                        |                   |                   |
| Minimum net capital required                                  | <u>\$ 3,077</u>   | <u>\$ 1,366</u>   |
| Minimum dollar net capital requirement                        | <u>\$ 50,000</u>  | <u>\$ 50,000</u>  |
| Excess net capital  | <u>\$ 57,303</u>  | <u>\$ 42,882</u>  |
| Excess net capital at 1000%                                   | <u>\$102,687</u>  | <u>\$ 90,833</u>  |
| Aggregate Indebtedness  |                   |                   |
| Items included from statement of financial condition:         |                   |                   |
| Accounts payable and accrued liabilities                      | <u>\$ 46,155</u>  | <u>\$ 20,491</u>  |
| Total aggregate indebtedness                                  | <u>\$ 46,155</u>  | <u>\$ 20,491</u>  |
| Ratio: Aggregate indebtedness to net capital                  | <u>.431 to 1.</u> | <u>.221 to 1.</u> |

BLACKWELL DONALDSON & COMPANY  
SCHEDULE 2 - RECONCILIATION OF COMPUTATION OF NET CAPITAL UNDER  
RULE 15C3-1  
For Years Ended May 31, 2004 and 2003

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT - PART IIA  
FORM X-171-5 THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION

NET CAPITAL

|   | <u>2004</u>      | <u>2003</u>      |
|---|------------------|------------------|
| Net capital as of May 31, per<br>unaudited report filed by respondent | \$110,560        | \$ 92,882        |
| Changes in accruals   | ( 3,090)         | 0                |
| Change in deposit at clearing   | ( <u>167</u> )   | <u>0</u>         |
| Net capital at May 31, as adjusted                                    | <u>\$107,303</u> | <u>\$ 92,882</u> |

AGGREGATE INDEBTEDNESS

|   |                  |                  |
|---|------------------|------------------|
| Total aggregate indebtedness as of<br>May 31, per unaudited report<br>filed by respondent | \$ 42,803        | \$ 20,435        |
| Reclass of negative asset   | 262              | 56               |
| Additional accruals   | <u>3,090</u>     | <u>0</u>         |
| Total aggregate indebtedness as of<br>May 31, as adjusted                                 | <u>\$ 46,155</u> | <u>\$ 20,491</u> |

**Morrison & Liebswager, P.C.**  
**Certified Public Accountants**

15405 SW 116th Avenue, Suite 105  
King City, OR 97224

*Bruce J. Morrison*

*Duane G. Liebswager*

REPORT OF INDEPENDENT AUDITORS ON INTERNAL ACCOUNTING CONTROL

To the Board of Directors  
Blackwell Donaldson & Company  
Portland, Oregon

In planning and performing our audit of the financial statements of Blackwell Donaldson & Company for the year ended May 31, 2004, we considered its internal control structure, including procedures for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

Also, as required by rule 17a-5(g) (1) of the Securities and Exchange Commission, we have made a study of the practices and procedures including tests of compliance with such practices and procedures followed by Blackwell Donaldson & Company that we considered relevant to the objectives stated in rule 17a-5(g), in the following:

- (1) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a) (11) and the reserve required by rule 15c3-3 (e).

We did not review the practices and procedures followed by the Company in complying with the requirements for prompt payment for securities under Section 8(b) of Regulation T of the Board of Governors of the Federal Reserve System, because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

The management of the Company is responsible for establishing and maintaining an internal control structure and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the commission's above-mention objectives. Two of the objectives of an internal control structure and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with generally

accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practice and procedures listed in the preceding paragraph.

Because of the inherent limitations in any internal control structure or the practices and procedures referred to above, errors of irregularities may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure, including procedures for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the commission to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at May 31, 2004, to meet the Commissions' objective.

This report is intended solely for the use of management, the Securities and Exchange Commission, the New York Stock Exchange and other regulatory agencies which may rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 and should not be used for any other purpose.

*Morrison & Liebswager, P.C.*

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Certified Public Accountants

July 15, 2004